
**DRAFT 2010/2011 FINANCIAL STATEMENTS AND
PROPOSED SIGN-OFF PROCESS**

1. Purpose of Report

The purpose of this report is to obtain the agreement of the Subcommittee as to the proposed format and disclosures for the Council's 2010/11 financial statements and the associated sign-off process for those financial statements

2. Recommendations

Officers recommend that the Subcommittee:

1. *Receive the information.*
2. *Note that the proposed 2010/11 financial statements template has recently been reviewed by Audit New Zealand and that their comments/recommendations have been reflected in the template.*
3. *Note that all new standards, amendments and interpretations which are applicable for the 2010/11 financial statements have been considered by officers (refer Appendix 1) and notes that we are not planning to early adopt any new standards, amendments and interpretations.*
4. *Approve the proposed format and disclosures for the 2010/11 financial statements subject to:*
 - (a) *consideration of the implications of any changes in NZ GAAP arising up to 30 June 2011 which may be required to be applied retrospectively;*
 - (b) *the determination and disclosure of the final results of operations, cashflows and financial position for the year ending 30 June 2011 (and any subsequent impact on the notes to the financial statements); and*

(c) *receiving final clearance from Audit New Zealand.*

5. *Approve the sign-off process and timetable for the 2010/11 financial statements (refer Appendix 2).*

3. Background

Section 98 of the LGA 2002 requires the Council to prepare and adopt an Annual Report containing specified disclosures within four months after the end of the financial year. Section 111 of the LGA 2002 requires Council to comply with generally accepted accounting practice (GAAP) in preparing the Annual Report.

Council officers propose to prepare the 2010/11 Annual Report for adoption on 31 August 2011. In order to achieve this timeframe, a draft template has been prepared for the Subcommittee's review which identifies the proposed financial statement format and disclosures. This report also outlines the proposed sign-off process and timetable for the adoption of the 2010/11 Annual Report.

The template has recently been reviewed by Audit New Zealand as part of their financial statements audit for the year ending 30 June 2011 and their comments/recommendations have been incorporated.

4. Significant Changes in the Content and Format of the Council's Financial Statements

4.1 Process

The template has been drafted by the Council's Financial Accounting team. We are mindful of the need to modify the presentation of the financial statements to maintain best practice. A process of review was undertaken looking at recently published annual reports prepared in accordance with NZ IFRS and other relevant material (NZ IFRS models, NZ IFRS updates and pending changes to NZ IFRS). In addition, we will also review the presentation and content of the financial overview and the annual report summary.

Throughout the year we consider amendments made to NZ IFRS and update the Subcommittee with any implications for the Council. A full listing of all new standards, amendments and interpretations which are applicable for the 2010/11 financial statements is shown in Appendix 1. Where the adoption of these new or revised standards is mandatory for the 2010/11 financial statements, any required changes have been included in the template. The Council is not proposing to early adopt any standards, amendments or interpretations.

It is important to note that the template reflects applicable NZ IFRS as at the date of preparation. If necessary, it will be updated to reflect ongoing

amendments to NZ IFRS between the date of preparation and the date of the next Subcommittee meeting.

4.2 Key changes in the financial statements template

The key changes to the financial statements include:

- No significant changes in accounting standards or new standards introduced.
- Continuing focus on “plain English”

Throughout the whole Annual Report process our focus will be on “plain English” financial reporting as we continue to strive to make the financial statements as readable and understandable as possible for our residents while still meeting the compliance requirements of NZ GAAP and the Local Government Act.

5. Significant areas of focus for the financial statements for the year ending 30 June 2011

Significant areas of focus identified to date as part of the preparation of the financial statements for the year ended 30 June 2011 are as follows:

- Reassessment of fair values / impairment testing

The Council revalues certain classes of property, plant and equipment on a rolling three year cycle. Revaluations are staggered over the three year period to spread the cost and workload involved. We are required to review the off-cycle classes to ensure that the carrying value of these assets is not materially different from fair value.

Library collections and infrastructure assets are due to be revalued as at 30 June 2011 and the results of these revaluations will be presented to the subcommittee in August. Of the other classes subject to the revaluation model, operational land and buildings were last revalued at 30 June 2009.

We reviewed the off-cycle classes of property, plant and equipment, applying appropriate indices. We concluded that there is no indication that fair values have shifted materially since the last valuations were completed which would necessitate an off-cycle revaluation. This conclusion has been accepted by Audit New Zealand.

- Investment property revaluation

Investment properties comprise ground leases as well as land and buildings held for investment purposes (commercial rental or capital growth). In accordance with NZ IAS 40: Investment Property, these are revalued annually to market value and all changes in fair value are shown within the surplus or deficit. All investment properties (including those in the Wellington Waterfront Project), will be revalued as at 30 June 2011.

- Impairment of Assets

The Council is required to regularly consider impairment in accordance with NZ IAS 36: Impairment of Assets. Given the difficult economic climate over the last few years and its potential impact on asset values, this remains a particular area of focus for 2010/11. We are looking closely at all of our assets to ensure that we have appropriately reflected any impairment issues. At the next Subcommittee meeting we will provide further information on the overall impairment for the 2010/11 financial year.

- Weathertightness (leaky homes) provision

Exposure to liabilities from leaky home claims remains a significant issue for both the Council and wider sector. The government and representatives from Local Authorities are working through the details of a new financial assistance package (FAP) to help homeowners repair their leaky homes faster. The FAP will see the Government meet 25% of agreed repair costs, Local Authorities contributing 25% and homeowners paying the remaining 50%. We are currently working with our actuaries to establish how to factor the new scheme into the calculation of the provision for the 2010/11 financial year. This will be presented to the Subcommittee during the scheduled year end meeting on 22 August 2011.

6. Year-end Financial Results

This report has focused on the template for the year-end financial statements and the disclosures. Any significant movements from budgeted results or issues arising will be reported to the Subcommittee during the scheduled year end meeting on 22 August 2011.

7. Proposed Sign-off Process for the 2010/11 Financial Statements

On the basis that the Subcommittee has been delegated the primary responsibility for the audit of the Council's financial statements, a proposed sign-off process and timetable has been developed in order to adopt the 2010/11 Annual Report. This is outlined in Appendix 2 to this report.

8. Conclusion

Section 98 of the Local Government Act 2002 requires the Council to prepare and adopt an Annual Report that includes audited financial statements. The Act requires that the financial statements be prepared in accordance with NZ GAAP.

The attached financial statements template has been prepared for the Subcommittee's review and approval, as part of the overall sign-off process for the 2010/11 Annual Report.

Accordingly, it is recommended that the Subcommittee approve the reporting template for use in preparing the final consolidated financial statements.

In addition, it is recommended that the Subcommittee approves the proposed sign-off process and timetable as detailed in Appendix 2.

Contact Officer: *Nicky Blacker – Manager, Financial Accounting*

APPENDIX 1

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE FOR THE 2010/11 FINANCIAL STATEMENTS

Standard with amendment / New standard	Application date	Nature of amendment	Impact for the Council
Various	1 July 2010 or 1 January 2011	Annual improvements process – 2010	Various minor amendments and clarifications. The Council does not anticipate a significant impact on its financial statements.
NZ IAS 24	1 January 2011	Related Parties (Revised 2009)	The Council does not anticipate any impact on its financial statements.
NZ IFRIC 14	1 January 2011	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	We note that this is not relevant to the Council as we do not have a defined benefit plan.
NZ IFRS 8	1 January 2011	Operating Segments	The Council does not anticipate any impact on its financial statements.
NZ IFRS 7	1 April 2011	Amendments to NZ IFRS 7 - Appendix E	The Council is not a Financial Institution as defined in Appendix E, so does not anticipate any impact on its financial statements
NZ IAS 26	1 April 2011	Amendments to NZ IAS 26 Accounting and Reporting by Retirement Benefit Plans	The Council does not anticipate any impact on its financial statements.
FRS 44	1 July 2011	New Zealand Additional Disclosures	The Council does not anticipate any impact on its financial statements.
NZ IFRS 7	1 July 2011	Amendments to NZ IFRS 7 Financial Instruments: Disclosures	The Council does not anticipate any impact on its financial statements.
Various	1 July 2011	Harmonisation Amendments (with Australia)	The Council does not anticipate any impact on its financial statements.
NZ IFRS 1	1 July 2011	Amendments to NZ IFRS 1 First-time Adoption of New Zealand Equivalents to	The Council does not anticipate any impact on its financial statements.

		International Financial Reporting Standards	
NZ IAS 12	1 January 2012	Deferred Tax: Recovery of Underlying Assets	The Council does not anticipate any impact on its financial statements.
NZ IFRS 9 (2009)	1 January 2013	NZ IFRS 9: Financial Instruments	Will affect the categories under which financial assets are classified, but will have no impact on the values currently reported in the Annual Report.
NZ IFRS 9 (2010)	1 January 2013	Amendments to IFRS 9: Fair Value Option for Financial Liabilities	The Council does not anticipate any impact on its financial statements.

APPENDIX 2

PROPOSED SIGN-OFF PROCESS AND TIMETABLE FOR THE 2010/11 ANNUAL REPORT

Date:	Action:
8 June 2011 (scheduled)	<i>Audit and Risk Management Subcommittee Meeting</i> Subcommittee to review and conditionally approve draft format for the 2010/11 financial statements and the proposed sign-off process.
1 August 2011 11 August 2011	Audit New Zealand commence final audit fieldwork Consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2011, financial position as at 30 June 2011 and financial overview available for final internal review and management sign off.
22 August 2011 (scheduled)	<i>Audit and Risk Management Subcommittee Meeting</i> Subcommittee to review consolidated draft financial statements, including results of operations and cashflows for the year ending 30 June 2011, financial position as at 30 June 2011 and financial overview, subject to final Audit New Zealand clearance. Subcommittee to also review Statements of Service Performance, report on CCOs and report on mana whenua partnership.
22 August 2011	Subcommittee to recommend adoption of 2010/11 financial statements to Strategy and Policy Committee. <i>Audit New Zealand to issue letter of comfort to Strategy and Policy Committee as to whether an unqualified, or qualified, audit opinion will be issued.</i>
31 August 2011 (scheduled)	<i>Special Strategy and Policy Committee Meeting</i> Committee to recommend adoption of 2010/11 financial statements to Council.
31 August 2011 (scheduled)	<i>Council Meeting</i> Council to adopt 2010/11 financial statements. Management Letter of Representation issued to Audit New Zealand. Audit New Zealand sign Audit Opinion. Media Release – Financial Results for the year ending 30 June 2011.
30 September 2011	Release of published Annual Report.

APPENDIX 3

DRAFT 2010/11 FINANCIAL STATEMENTS

Supporting Information

1) Strategic Fit / Strategic Outcome

This project supports Strategy 1: Governance: As per the Annual Plan, Governance includes all those activities that make the Council accountable to the people of Wellington and ensure the smooth running of the city. That includes all meetings of the Council and its committees.

2) LTCCP/Annual Plan reference and long term financial impact

Relates to C534: Committee and Council process.

3) Treaty of Waitangi considerations

There are no Treaty of Waitangi implications.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

Not required.

b) Consultation with Maori

Not required.

6) Legal Implications

None.

7) Consistency with existing policy

This report is consistent with existing Wellington City Council policy.